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SUBJECT: FS SARAN BRIEFS ON NEPAL PM VISIT

Classified By: Ambassador David C. Mulford, for Reasons 1.4 (B, D)

¶11. (C) Summary: The most important outcome from the June 5-9 visit of Nepalese Prime Minister G.P. Koirala to New Delhi was the GOI's expression of unconditional political support for the Seven Party Alliance (SPA) and the announcement of an economic aid package worth USD 210 million, in finite terms plus further relief through rescheduling of debts owed by Nepal to the Indian Oil Company, stated Foreign Secretary Shyam Saran to the Ambassador on June 13. Saran commented that military assistance remains on hold, but the GOI and GON agreed to revive the Bilateral Consultation Group on Security Issues (BCGSI). Saran also indicated the GOI discussed resumption of non-lethal logistical support, such as vehicle spares. In reference to reports of continued Maoists violence and intimidation, Saran asserted that the international community must bolster the SPA and maintain pressure on the Maoists. He indicated that the GON will decide on the role of the UN in Nepal, but warned that allowing the introduction of an international mediator would benefit the Maoists. Saran stressed that the Maoists must forego violence, intimidation and extortion in order to join the political process and must do so prior to any election prospects. Prime Minister Koirala told Saran that he continues to balance the desires of certain members of the SPA, who want the Parliament to play a more active role, with the Maoist's desire for the Parliament not to move too fast without Maoist involvement. End Summary.

Political and Economic Support to GON Vital

¶12. (C) Nepalese Prime Minister G.P. Koirala requested the June 5-9 visit to New Delhi in order to demonstrate that the SPA has unconditional Indian political support and will

receive vital economic aid, Foreign Secretary Saran told the Ambassador on June 13. Saran opined that the two most important items from Koirala's visit were the strong GOI support for his government, demonstrated by Prime Minister Singh meeting him at the airport, and the comprehensive economic aid package India will provide Nepal.

¶3. (C) Saran remarked that PM Singh broke protocol and met Koirala at the Airport (which he has done only twice before, for POTUS and Saudi Arabia's King Abdullah bin Abdulaziz), demonstrating the importance the GOI places on its relationship with Nepal. It was very important for the GOI to show strong public support for the democratic system in Nepal, Saran asserted.

¶4. (C) In conjunction with the political support, Saran commented that the USD 210 million economic aid package will infuse badly needed cash into the Nepalese economy, including USD 25 million in immediate funding. He commented that the USD 25 million would cover one-third of the current GON budget deficit. The GOI will loan another USD 25 million, at less than one percent interest for a very long tenure, for infrastructure "upgradation" and has "written off" approximately USD 25 million in debt related to outstanding defense debts. The remainder of the funding will go towards maintaining existing community programs, such as purchasing of fertilizer, community project grants and other infrastructure development. Noting that the debt owed by the Nepal Oil Corporation to the Indian Oil Corporation was a private commercial matter, Saran nevertheless revealed that the MEA had facilitated a lenient rescheduling of this debt. MEA's Swarup commented that water resources, and "other

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touchy issues," were not discussed during this visit.

¶5. (C) Asked by the Ambassador whether the budget shortfall in Nepal was inherent before the trouble, Saran remarked that it was partially, but had been greatly enhanced by the crisis. Saran suggested that the economic problems in Nepal are worrying, but solvable through the aid package and an economy reinvigorated by the peace process.

Military Aid Still on Hold...

¶6. (C) Saran told the Ambassador that military aid is still on hold, and the GOI would wait for a GON request prior to resumption. He stated that Koirala did not ask for any military aid during his New Delhi visit. Nepal and India agreed to revive the BCGSI, which was a forum to discuss bilateral security issues prior to the severing of military ties following the King's February 2005 power-grab, Saran noted. He also said that discussions on future non-lethal assistance, such as logistics support and supply of spare vehicle parts, took place between Koirala and Defense Minister Pranab Mukherjee.

... But Do Not Antagonize the Army

¶7. (C) Saran remarked that he warned Koirala not to "do anything that would alienate the army, because if the peace process breaks down you may need them." He acknowledged that removing some of the members of the police force and army was necessary, but suggested to Koirala not to go to far with these changes. It is important for the Maoists to know that the SPA has the backing of the military in order for the peace process to succeed, Saran stressed.

Maoists Need to Be Kept in Check

¶8. (C) Any strategy for negotiations with the Maoists must hold them to their promise to forgo violence, and include some type of weapons decommissioning, Saran asserted. He

stressed the importance of the SPA presenting a strong and united front against the Maoists during negotiations, and noted concern that inclusion of a third party into the negotiations would mostly benefit the Maoists. He commented that if a third party, referring to the UN, interjected themselves into the negotiations, they would feel obliged to treat the Maoist and the GON as equals. This would not be the best strategy, because the GON, as the legitimate government, should have the upper hand in the negotiations, Saran declared. Acknowledging that it is up to the GON to decide the role of the UN in the peace process, Saran stated that he presented Koirala with the GOI's concerns regarding third-party involvement in the negotiations. Saran concluded that the GOI "has no problem with the UN playing a technical role in weapons decommissioning and elections monitoring."

The Balancing Act

¶9. (C) Koirala told Saran that he continues to balance the desires of certain members of the SPA, who want the Parliament to play a more active role, with the Maoist desire not to move too fast without their involvement. Saran told Koirala, with other SPA members in the meeting, that they must be restrained in how they use the Parliament, or "it

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will come back to haunt you if you do too much." MEA Director (North) Swarup noted to Poloff separately that, despite the internal "squabbling" the parties have stayed together, and that, "the most important thing is to keep the SPA together." Swarup concluded that, "The sooner the peace process concludes, the better. It will limit the time during which the two sides can raise the bar on their demands."

MULFORD